

A review of the work of the London Foreign Exchange Joint Standing Committee in 2011

This article reviews the work undertaken by the London Foreign Exchange Joint Standing Committee during 2011.

Introduction

The London Foreign Exchange Joint Standing Committee (FXJSC — 'the Committee') was established in 1973, under the auspices of the Bank of England, as a forum for banks and brokers to discuss broad market issues. The Committee comprises senior staff from many of the major banks operating in the wholesale foreign exchange (FX) market in London, representatives from brokers, trade associations including the Wholesale Markets Brokers' Association, the Association of Corporate Treasurers — representing corporate users of the foreign exchange market, the British Bankers' Association and the Financial Services Authority. A list of the members of the Committee as at end-2011, and a high-level organogram, can be found at the end of this article. The Committee held six meetings during 2011.

Ongoing developments in the regulatory landscape, both in Europe and the United States, were a key theme of the FXJSC 2011 meetings. Presentations by the European Commission and the Global Financial Markets Association FX Division provided the Committee with an overview of regulatory initiatives for over-the-counter derivatives and outlined how the FX industry had engaged with the relevant authorities. Guest speakers included senior staff from Saxo Bank, who discussed the impact of the proposed regulatory changes on non-wholesale FX markets; and from Traiana, who focused on the post-trade market segment.

In 2011 a working group was launched under the auspices of the FXJSC to review developments in electronic trading and propose best-practice recommendations. These were discussed by the Committee and incorporated into the latest version of the Non-Investment Products (NIPs) Code following their approval.

Non-Investment Products Code

The NIPs Code is a voluntary code of good market practice drawn up by market practitioners covering the FX market in the United Kingdom as well as the markets for wholesale

bullion and wholesale deposits. The Code is published by the FXJSC, with contributions from the FXJSC operations and legal subgroups, the Sterling Money Markets Liaison Group and the Management Committee of the London Bullion Market Association for the relevant sections. An updated version of the Code was published in November 2011⁽¹⁾ to include new sections on electronic trading and capacity and volume management. The Code also included expanded text on standard settlement instructions (SSIs) and updated contingency arrangements in the event of disruption in the sterling wholesale deposit market.

Work of the FXJSC operations subgroup

The operations subgroup was established in 2002. Its members are operational managers from many major banks active in the London wholesale FX market as well as representatives from service providers and trade associations.

In 2011, the operations subgroup sponsored a variety of workstreams feeding into the 2011 NIPs Code update. In particular the group worked on enhancing the best-practice standards for SSIs and, as part of a wider industry group facilitated by CLS, produced guidelines on operational capacity and transaction volume management. The FX novation protocol workstream, in conjunction with the New York Foreign Exchange Committee's operations managers working group, was concluded in the second half of the year.

The operations subgroup has also continued to strengthen its co-operation with other international committees by joint membership of some of its working groups and regular liaison conference calls, as well as a joint meeting in October.

Work of the FXJSC legal subgroup

The legal subgroup was established in 2004 with some fifteen professional members providing in-house legal counsel for

(1) The NIPs Code can be accessed at: www.bankofengland.co.uk/markets/Documents/forex/fxjsc/nipscode1111.pdf.

many of the major institutions involved in the wholesale FX market in London. The group met three times in 2011. It continued to make an invaluable contribution through its provision of legal support to the work of the FXJSC main Committee and its operations subgroup; in particular reviewing and preparing the updated NIPs Code for publication. During 2011, the legal subgroup welcomed guest speakers on topical issues from Allen & Overy, the Bank of England, International Swaps and Derivatives Association, Clifford Chance and Shearman & Sterling as well as member firms, and kept updated on developments in the global FX market.

The group continued to liaise with a range of other domestic and foreign legal committees to keep abreast of developments in FX markets.

Work of the FXJSC chief dealers' subgroup

The chief dealers' subgroup was established in July 2005. Its membership in 2011 comprised thirteen chief dealers active in the London FX market.

The subgroup met four times during 2011 to discuss conjunctural and structural developments in the FX market. Topics of conversation included market developments in the euro area as well as overseas, the September 2011 BIS Markets Committee report on high-frequency trading in the FX market,⁽¹⁾ and regulatory developments impacting FX markets globally.

International co-operation

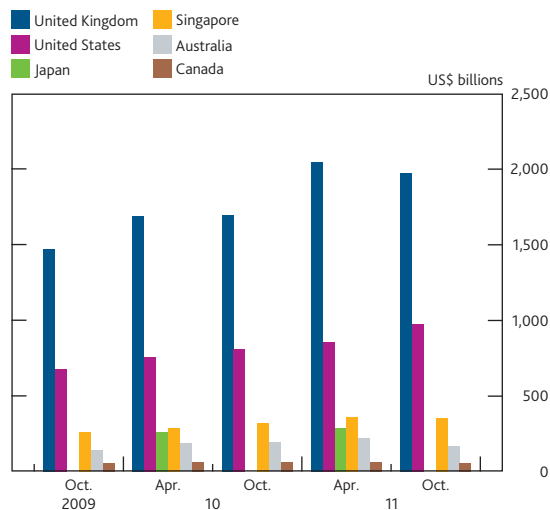
Liaison between the eight FX committees based in different international financial centres (London, Frankfurt for the euro area, Hong Kong, New York, Singapore, Sydney, Tokyo and Toronto) continued during the year. In April 2011, the Canadian Committee hosted the fourth global meeting of the FX committees. Topics discussed included FX-related regulatory initiatives and trends in prime broking and electronic trading.

In October, the FXJSC operations subgroup, together with the New York Foreign Exchange Committee operations managers working group and the European Central Bank Foreign Exchange operations managers group, also held a joint meeting to discuss the workstreams of the individual groups and establish global best practices for operational issues where possible. The operations subgroups also considered regulatory developments in Europe and the United States, focusing on trade reporting and central clearing, and how they may impact FX operations.

International survey results overview

Thirty banks representing the most active participants in the London FX market, including members of the FXJSC, contributed to the fourteenth and fifteenth semi-annual surveys of FX turnover in London in April and October 2011, conducted by the FXJSC. Total turnover continued to rise markedly on the year to October 2011 (+17%), although there was a slight fall between the April and October surveys (**Chart 1**). Indeed after posting a 21% rise in April 2011, turnover fell 3% in October 2011 from six months earlier. This was the first fall in total turnover since April 2009. Average daily turnover recorded in the October 2011 survey was US\$1,972 billion, having reached a record high of US\$2,042 billion in the April 2011 survey.

Chart 1 Global FX^(a) daily average turnover



Sources: Australian Foreign Exchange Committee, Canadian Foreign Exchange Committee, London Foreign Exchange Joint Standing Committee, New York Foreign Exchange Committee, Singapore Foreign Exchange Committee and Tokyo Foreign Exchange Market Committee.

(a) This includes spot, outright forwards, non-deliverable forwards, FX swaps, currency swaps and FX options.

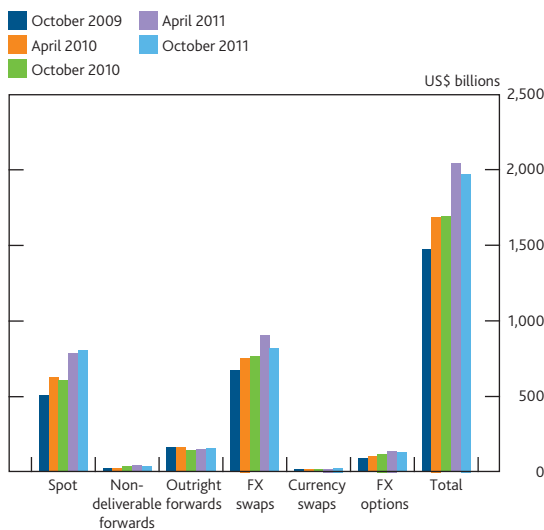
These developments were broadly in line with FX activity in other global centres, with all committees except the New York Foreign Exchange Committee posting a fall in turnover in the six months to October 2011. Australia reported the largest relative decrease in turnover between the April and October 2011 surveys (-23%), followed by Canada (-14%), whereas the United States posted a 14% rise. In the year to October 2011, the United Kingdom, United States and Singapore all posted strong increases in turnover, while turnover in Australia and Canada fell. Japan does not conduct a survey in October,⁽²⁾ but data for April 2011 showed turnover increased by 8% from the April 2010 survey.

(1) The BIS Markets Committee report can be accessed at: www.bis.org/publ/mktc05.pdf.

(2) The Tokyo Foreign Exchange Market Committee publishes annual turnover results.

The broad upward trend in FX spot turnover continued in 2011, despite a fall in overall turnover in the six months to October 2011. In October 2011, average daily spot turnover rose to a record survey high of US\$802 billion, 32% higher than a year earlier and 2% higher than April 2011 (Chart 2). The overall fall in turnover from April 2011 was more than accounted for by a 9% fall in FX swap turnover. Most other products were little changed, although currency swaps saw a large relative increase in turnover to new survey highs (+26%).

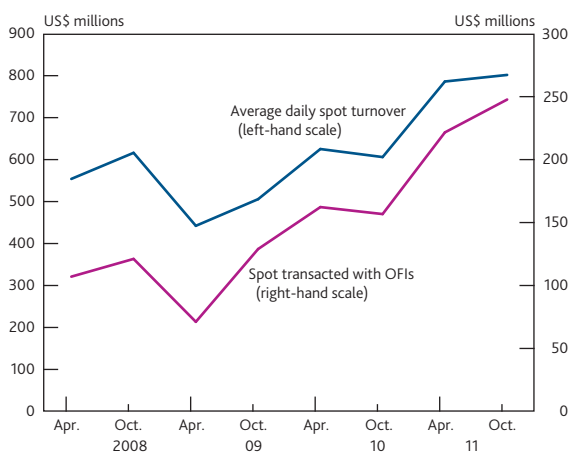
Chart 2 UK daily average turnover by product



Source: London Foreign Exchange Joint Standing Committee.

The rise in FX spot turnover was driven by a marked increase in transactions with other financial institutions (OFIs), a category that includes hedge funds, central banks and sovereign wealth funds (Chart 3). The proportion of spot transactions accounted for by OFIs rose to 31% in October 2011, from 26% a year earlier. The growth in prime brokered spot transactions has however slowed, accounting for 25% of all spot trades in April and October 2011 (24% in October 2010).

Chart 3 UK average daily spot turnover

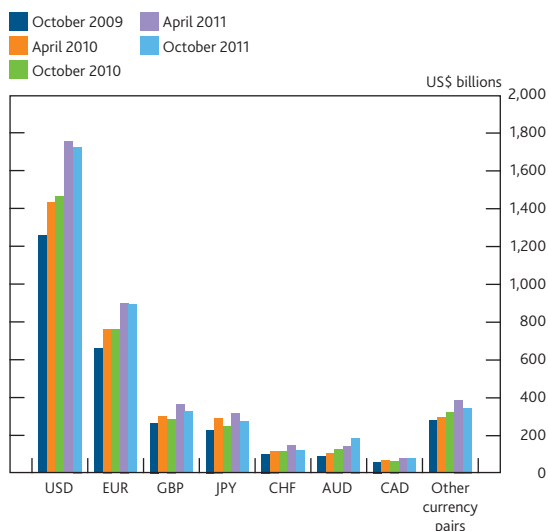


Source: London Foreign Exchange Joint Standing Committee.

Turnover in all major currencies increased since October 2010, although the market share of each currency remained broadly unchanged (Chart 4). Turnover in the Australian dollar continued to grow, rising 47% from a year earlier. Over the same period, turnover in sterling currency pairs rose 14%, slightly below the increases witnessed in euro (+17%), and dollar pairs (+18%). Turnover in most emerging market currencies remained strong across regions, with particularly pronounced growth seen in the Turkish lira, Russian rouble, Singapore dollar and Mexican peso. Turnover concentration for the survey was broadly similar to that seen in October 2010; the top five banks participating in the survey accounted for 51% of overall turnover.

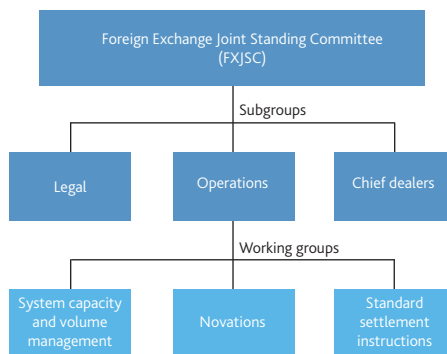
The forthcoming FXJSC survey results for April 2012 will be published in Summer 2012.

Chart 4 UK daily average turnover by currency



Source: London Foreign Exchange Joint Standing Committee.

Figure 1 Foreign Exchange Joint Standing Committee: structure



Tables of membership at end-2011

Members of the London Foreign Exchange Joint Standing Committee as at December 2011

Name	Firm/organisation
Brian Welch	Association of Corporate Treasurers
Christopher Bae	Bank of America Merrill Lynch
Rob Loewy	Bank of China
Richard Gill	Bank of New York Mellon
Mike Bagguley	Barclays
Eric Auld	BNP Paribas
Andrew Rogan	British Bankers' Association
James Bindler	Citi
Alan Bozian	CLS Bank
Vincent Leclercq	Crédit Agricole CIB
Martin Wiedmann	Credit Suisse
Zar Amrolia	Deutsche Bank
Heather Pilley	Financial Services Authority
Phil Weisberg	FXAll
Nick Burgin	Goldman Sachs
Frederic Boillereau	HSBC
John Nixon	ICAP
Troy Rohrbaugh	JPMorgan Chase
Roger Hawes	Royal Bank of Scotland
James Potter	Tullett Prebon
Alex McDonald	Wholesale Markets Brokers' Association
Graeme Munro	JPMorgan Chase, Chair, operations subgroup
Nick Cox	BlackRock, Chair, FX investor subgroup
Michael Cross (Chair)	Bank of England
Elizabeth Wrigley	Bank of England
Grigoria Christodoulou, Jack Garrett-Jones and Sumita Ghosh (Secretariat)	Bank of England

Members of the London Foreign Exchange Joint Standing Committee chief dealers' subgroup as at December 2011

Name	Firm/organisation
Ryuichi Takami	Bank of Tokyo-Mitsubishi UFJ
Bob de Groot	BNP Paribas
Bernie Kipping	Commonwealth Bank of America
Danny Wise	Credit Suisse
Angus Greig	Deutsche Bank
Jon Pierce	Goldman Sachs
Stuart Scott	HSBC
Richard Usher	JPMorgan Chase
Ed Monaghan	Royal Bank of Canada
Roger Hawes	Royal Bank of Scotland
Chris Freeman	State Street
Niall O'Riordan	UBS
Martin Mallett (Chair)	Bank of England
James O'Connor	Bank of England

Members of the London Foreign Exchange Joint Standing Committee operations subgroup as at December 2011

Name	Firm/organisation
Nigel Brigden	Association of Foreign Banks
Michael Douglas	Bank of America Merrill Lynch
Barry Harrison	Bank of England
Pamela Bald	Bank of New York Mellon
Duncan Lord	Barclays
Andrew Rogan	British Bankers' Association
Leigh Meyer	Citi
Phil Kenworthy	CLS Services
Andreas Gaus	Credit Suisse
Nick Doddy	Deutsche Bank
Catherine Plant	Goldman Sachs
Mike Neale	HSBC
Anna Box	ISDA
Andrew Harvey	Morgan Stanley
Stephen Nankivell	Nomura
Jeremy Hill	Royal Bank of Scotland
Ian Cowell	State Street
Joe Halberstadt	SWIFT
Jane Collins	Thomson Reuters
Daniel Haid	UBS
Graeme Munro (Chair)	JPMorgan Chase
Grigoria Christodoulou, Jack Garrett-Jones, Sumita Ghosh and Richard Hailston (Secretariat)	Bank of England

Members of the London Foreign Exchange Joint Standing Committee legal subgroup as at December 2011

Name	Firm/organisation
Gaynor Wood	Bank of America
Richard Haynes	Citi
Simon Goldsworthy	Deutsche Bank
Carl Husselman	Deutsche Bank
Anne Moore-Williams	Financial Services Authority
Dan Parker	Goldman Sachs
Mehboob Lakhany	HSBC
Christian Bettley	HSBC
Patrick Palmer	JPMorgan Chase
Barra Little	Morgan Stanley
Alex Bouchier	Royal Bank of Scotland
Alistair Cleverly	Standard Chartered
Martin Oakley	Thomson Reuters
Chris Allen (Chair)	Barclays
Jacqueline Joyston-Bechal (Secretariat)	Bank of England